

To: Village Clerk

Date: December 17, 2013 (Revised)

From: Mike Harrington, Chairman – Insurance Committee

cc:

Robert Kosin

Subject: Insurance

Michael Murphy

Summary

The Insurance Committee hereby supplements its memo dated November 21, 2013, to reflect new and supplemental information:

1. A final quote of \$225,938 was received for renewal of 2014 Property and Casualty (P&C) insurance policies, which represents an approximate increase of 17% over 2013;
2. The family coverage deductibles for the selected Blue Cross Blue Shield (BCBS) Blue PPO Gold health policy were increased to \$12,000/\$24,000 for in-network/out-of-network versus the \$8,000/\$16,000 originally quoted;
3. While the higher deductibles increase the village's overall estimated costs for 2014, the selected plan continues to be the best choice versus other options.

Background

At the Board of Trustees meeting on November 21, 2013, the Insurance Committee made a series of recommendations relative to Health insurance and P&C insurance for 2014. Subsequent to that meeting additional information was received from Lundstrom Insurance Brokers and various insurance carriers. This memo supplements the November 21 memo and provides an update on this additional information.

P & C

Final quotes for the P&C policies for the Village were received on 12/6/13. As expected the renewal term premiums are higher for 2014. This is due to loss ratios trending higher in recent years, specifically in the areas of law enforcement liability and automobile liability. The renewal term premium for 2014 is \$225,938 compared to \$192,947 for 2013. This represents an increase of 17.1%.

For 2013 the village obtained a total of \$30 million in General Liability and Property coverage, consisting of \$10 million in primary coverage from Scottsdale and \$20 million in excess coverage from RSUI. For 2014, Scottsdale elected to limit their coverage to \$5 million. We reviewed several options with Lundstrom and concluded that our lowest cost approach for obtaining total coverage of \$30 million was to purchase \$5 million in primary coverage from Scottsdale, \$10 million of excess coverage from Torus and \$15 million of excess coverage from RSUI. The total premium equates to \$44,201 for 2014 compared to \$38,741 for 2013, an increase of 14%.

Health Insurance

On December 2, 2013, Lundstrom provided notice that the annual deductibles for family coverage on our chosen BCBS health policy (Blue PPO Gold –G513PPO) were higher than originally quoted. The deductibles for family coverage originally quoted by Lundstrom/BCBS were \$8,000/\$16,000 for In-Network/Out-of-Network and were re-quoted at \$12,000/\$24,000. Because the Village pays most of this deductible, the higher deductible amounts will likely increase the Village's expected health insurance costs for 2014. Under the original quote for the selected policy we projected savings of about \$72,000 for 2014 vs. 2013. Most of the savings result from of a reduction in the annual premium. Additional savings result from the proposed: 1) Increase in non-union employee's share of the deductible from \$250/\$500 to \$500/\$1,000 for individuals/family coverage; and 2) Implementation of non-union employee sharing in the cost of annual health premiums at the 5% level. However, with the new higher deductibles factored in, the Village's cost for providing employee health insurance is estimated to be about \$3,000 more in 2014 than in 2013. This is a modest increase of less than 1%. Moreover, the recommended Blue PPO Gold policy remains less expensive than alternative policies considered from BCBS, including early renewal, as well as those offered by other carriers.

Embedded Deductible

While the new family plan has an in-network family deductible of \$12,000, it also has an "embedded deductible" of \$4,000 per individual family member. This embedded deductible allows each individual covered under a family plan to have his/her medical expenses in excess of \$4,000 covered prior to having the entire amount of the \$12,000 family deductible met. Therefore, it is likely that insurance benefit payments will kick in sooner than might be expected under a plan without an embedded deductible and the Village's payments to cover the deductible expense may prove to be lower than estimated. For example, in the case of an employee plus spouse ("employee plus one"), which is considered a "family" for coverage purposes, the embedded deductible effectively reduces the deductible from \$12,000 to \$8,000. Of course, the big variable is the health of our employees and how much of the deductibles are actually used in 2014.